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DIRECTORATE OF INTELLIGENCE

18 March 1986

Japan: Support for the New Philippine Government

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Summary

Tokyo has quickly shown its support for the new Aquino government by agreeing to extend the aid that had been delayed by the Philippine election. Although Japan's economic stake in the Philippines is limited, Tokyo looms large among Manila's trading partners and sources of aid and financial support--and its backing could be critical to Aquino's plans for economic recovery in the months ahead. Prime Minister Nakasone is likely to follow the US lead on initiatives to help stabilize the Philippine economy but will keep at arms length from programs advertised to bring about political and military reforms.

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Support for the Opposition

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 as the election campaign progressed, the Japanese were increasingly

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This memorandum was prepared by Office of East Asian Analysis. Information available as of 18 March 1986 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Japan Branch, Northeast Asia Division, OEA .

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concerned about instability and its impact on their economic and security interests. Government officials as well as the media believed that a loss of US bases in the Philippines could raise the possibility of increased US requests for Japan to do more in regional security. []

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Although Prime Minister Nakasone reportedly regarded President Marcos highly, many influential Japanese leaders have been either pro-Aquino for some time or were convinced by the extent of fraud in the elections that Marcos had lost his mandate. []

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[] The US Embassy in Tokyo also reported that Japanese businessmen financially supported the opposition ticket. []

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Japanese support for the Philippine opposition almost certainly stemmed as much from longstanding ties to Salvador Laurel as it did from any new affection for Aquino. Japanese connections with the Laurel family date from World War II, when the new Prime Minister's father was governor of the Philippines during the Japanese occupation. His brother was ambassador to Japan from 1966-71. Laurel himself has extensive personal and business dealings in Japan, and principal clients of the Laurel law firm include major Japanese firms such as Japan Air Lines. []

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Japan's Important Economic Role in the Philippines

Japan's role as the Philippines' leading donor of economic aid and most important trading partner after the United States makes Tokyo's support for the new government potentially critical for economic recovery (see figure 1):

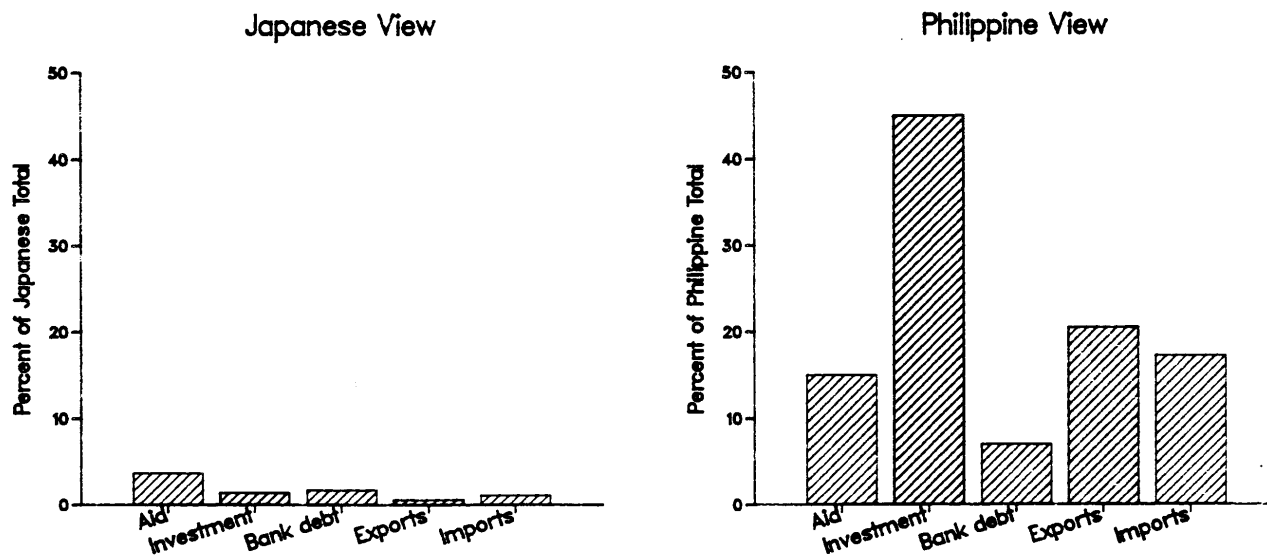
- Japan's economic aid has increased from \$94 million in 1980 to \$160 million in 1984. About two-thirds of the aid--almost all of which is disbursed as loans--funds development projects; the rest is used by Manila to pay for commodity imports, such as food.
- As a trading partner, Japan purchases 54 percent of Philippine raw material exports--such as iron ore, lumber, and nonferrous metal scrap--and 64 percent of its fuels.
- Japanese companies had invested \$832 million in the Philippines as of March 1985. The biggest Japanese employers in the Philippines are in the textile and mining sectors (see table 1).
- Four major Japanese trading companies have combined outstanding credits of \$840 million in the Philippines: Marubeni Corporation with \$580 million, Mitsui and Company with \$111 million, C. Itoh and Company with \$78 million, Mitsubishi Corporation with \$71 million. []

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Figure 1

Japanese — Philippine Economic Ties, 1984



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Table 1

Japanese Direct Investment in the Philippines, 1984

Japanese Investor	Name of Company	Sector	Employees
Mitsubishi Corp.	Atlas Consolidated Mining & Dev.	Copper	6,200
Marubeni Corp.	Marinduque Mining & Industrial	Copper	5,863
Sumitomo Corp.	Davao Fruits Corporation	Bananas	2,915
Mitsui Bank	Far East Bank & Trust	Banking	1,978
Toyo Menka	Filipinas Synthetic Fiber Corp.	Polyester	1,493
Isuzu Motors	General Motors Pilipinas, Inc.	Autos	1,350

Approach to Post-Marcos Government

As the first sign of support for the new government, Tokyo has finally agreed to release the \$275 million aid package that was approved by the Japanese Government last December. Japan will not, however, disburse the \$90 million designated as commodity credits until the Philippines uses up amounts previously extended for this purpose. We believe that at a minimum Tokyo will keep aid at present levels when negotiations for the next package begin this summer. Prime Minister Nakasone and Foreign Minister Abe have pledged increased aid to Manila, but the timing and size of the new funding have yet to be worked out. Although in line with Tokyo's announced intentions of doubling global aid outlays over the next seven years, increased aid is by no means guaranteed. In our view, failure by the Aquino government to initiate needed economic reforms or threats to eliminate US military bases after 1991 would have a decidedly negative effect on Japan's willingness to boost aid. []

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The Japanese view the Philippines as being in the US sphere of influence, and almost certainly regard their own economic stake in the Philippines as relatively limited. Japan is less dependent for trade and less involved in lending and direct investment in the Philippines than in other ASEAN countries (see table 2). []

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Table 2

Japan: Economic Relations With ASEAN, 1984
(percent of Japanese totals in each category)

	Two-Way Trade	Aid Commitments	Direct Investment
Philippines	0.8	5.4	1.2
Thailand	1.1	7.7	1.0
Singapore	2.1	0.1	2.7
Malaysia	2.4	5.6	1.5
Indonesia	4.6	7.7	11.2

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[redacted]

Tokyo is likely to be supportive of US initiatives to bolster the Philippine economy, but we do not expect the Japanese to publicly link their assistance to Manila's progress in noneconomic areas, such as political reform. If Washington presses, the Japanese Government might make trade concessions to the Philippines--for example, by improving market access in Japan for bananas or pineapples. Even so, the extent of such generosity would be determined by agricultural constituencies, which resist liberalizing imports [redacted]

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Tokyo could encourage Japanese companies to expand trade and investment in the Philippines--by providing low-cost financing, investment insurance, or tax credits. Recent comments [redacted] suggest, however, that the private sector would watch the Aquino government's progress in reviving the economy and in effectively controlling the insurgency before increasing their exposure. [redacted]

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